



CENTER ON BUDGET AND POLICY PRIORITIES

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MICHIGAN

Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Michigan is rated as having a significant risk of a structural deficit based on its score of seven on the risk scale for structural deficits.



- Michigan's sales tax covers less household services than the average state.
- Michigan has no corporate income tax. (Note: Michigan does have a single business tax which includes a value added tax. However, the single business tax is being phased-out.)
- Michigan's income tax preferences for its seniors exceed the US average.
- Michigan's income tax has a flat rate making it a less progressive tax. An individual earning \$30,000 in Michigan pays income tax at the same rate as someone earning \$300,000.
- Between 1994 and 2004, Michigan cut its personal income tax and corporate tax, while it increased its cigarette tax. This is problematic since income taxes provide stronger growth over the long term than sales and excise taxes.
- Michigan has a constitutional revenue limit that restricts revenue to 1% over 9.49% of the prior year's personal income. It also has three types of limits on the growth of local property taxes: a property tax rate limit, a property tax revenue limit and an assessment increase limit. Finally, it has a supermajority requirement for state property tax increases.
- Michigan remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated \$133 million per year.
- Lastly, although this paper did not categorize Michigan as having unusually high spending needs, it does face some spending pressures from: Medicaid and the number of students with special needs.